VZCZCXRO3571
PP RUEHFL RUEHNP RUEHTRO
DE RUEHRO #2217/01 2200850
ZNR UUUUU ZZH
P 080850Z AUG 06
FM AMEMBASSY ROME
TO RUEHC/SECSTATE WASHDC PRIORITY 5567
INFO RUEHTRO/AMEMBASSY TRIPOLI PRIORITY
RUEHFL/AMCONSUL FLORENCE PRIORITY 1627
RUEHMIL/AMCONSUL MILAN PRIORITY 7471
RUEHNP/AMCONSUL NAPLES PRIORITY 1727
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ROME 002217

SIPDIS

SENSITIVE
SIPDIS

EUR FOR DAS BRYZA

E.O. 12958: N/A
TAGS: ECON EINV ENRG ETRD LY IT
SUBJECT: ITALIAN TRADE AND INVESTMENT IN LIBYA

Summary

¶1. (U) The importance of Libyan oil and gas to the Italian electricity industry has ensured a steady stream of trade and investment between the two countries, notwithstanding Libya's sometimes difficult business environment. Italian trade and investment outside the energy sector is virtually non-existent, a situation which could change if Libyan business and bureaucratic practices were to become more transparent. End Summary.

Italy-Libya Trade

¶2. (U) Italy has consistently run a substantial trade deficit with Libya over the recent past. Principal imports from Libya are petroleum and natural gas, resources upon which Italy relies heavily to support its energy needs. From Libya's vantage, Italy is its largest trading partner: in 2005, trade with Italy made up 36.9 percent of Libya's total trade. While most of this position is skewed towards imports, Italy is an important supplier to Libya: some 25.2 percent of Libya's total imports come from Italy.

¶3. (U) Italian exports to Libya include agricultural machinery, agricultural products, refrigeration plants, packaging plants, marble, metal, plastic and woodworking machines, road- and rail-network materials, tourist services, telecommunications, furniture, clothing, and food products.

Italy's Foreign Trade with Libya (billions of Euros)

	Exports	Imports	Balance
1999	.867	3.099	-2.232
2000	1.028	6.384	-5.356
2001	1.294	5.466	-4.173
2002	1.316	4.908	-3.592
2003	1.367	5.226	-3.859
2004	1.516	6.310	-4.793
2005	1.360	9.732	-8.372

Italian Foreign Direct Investment in Libya

¶4. (SBU) SACE, Italy's export credit insurance company, does little business in Libya. Outstanding disputes between the Libyan government and Italian businesses, dating from Libyan independence from Italian colonial rule, are an additional deterrent to SACE entering the Libyan market. SACE officials told Econoff July 26 that export credit agencies (ECAs) doing business in Libya have found bureaucratic processes

incoherent, and most export credit agencies have yet to be paid for their services. With no solution visible in the short term, insurance premiums will likely continue to be prohibitive for Italian investment in Libya. SACE officials noted that in Libya's centralized bureaucracy, the pace of change depends on Colonel Gaddafi. SACE further noted Libya needs money to modernize and develop, and expressed hope that this need may encourage the government to promote more transparent business and bureaucratic practices. Our contacts concluded that the atmosphere will not change easily, as many Libyans feel "they should be indemnified" for the past sanctions imposed against them and for Italy's colonial legacy, rather than charged with past debts.

¶5. (U) Regardless of the troubled business climate, the role of Libya as an important source of energy for Italy has made Libya one of the leading destinations for Italian foreign direct investment. In 2005, Italian companies invested 844.7 million euro in Libya, almost exclusively in the energy sector. Eni, the 30 percent GOI-owned oil and gas parastatal is the largest Italian investor in the country, and has been present there since 1959. Eni is a partner in the Libya-Sicily natural gas pipeline, a 3.5 billion dollar project which delivers eight billion cubic meters of gas to Italy annually. Another large investor in Libya is the Fiat group, which has built an automobile plant in Tajoura, producing two to three thousand cars a year. SACE officials speculated that the Libyan government's role in the economy keeps out much foreign industry, but the private sector is growing, favoring small and medium-sized Italian businesses in the future.

Economic Reform: Hope for the Future

¶6. (U) According to SACE, Libya's centralized bureaucracy and Colonel Gaddafi's erratic economic policies limit Libya's short-term economic prospects. According to our contacts, these factors have been promoting an unpredictable policy climate; the Libyan leader is notoriously capricious and prone to sudden reversals, which, together with bureaucratic bottlenecks, hinder policy implementation. SACE sees some signs that Libya intends to move towards economic reform and a reduction in the state's direct role in the economy, though there has been little progress so far. For example, our contacts say, in 2005, Libya simplified the duties system and reduced some tariffs. This reform is widely considered the only meaningful economic reform of 2005. However, many imported products are still subject to a consumption tax that can reach 50% of the value.

Comment

¶7. (U) Although GOI public statements might shine a positive light on the relationship between Libya and Italy, private conversations with SACE officials focused on the inhospitable business climate and the high risk associated with investments made in Libya. However, Italy's dependence on Libyan oil and gas ensures that business with Libya will continue, regardless of bureaucratic problems or other impediments. End Comment.

¶8. (U) Minimize considered.
SPOGLI